(c) whether it is a fact that most of the financial institutions have opposed the creation of the proposed Fund, being complex in nature and because it would only duplicate the already existing similar nodal financial institutions, the IDFC; and

(d) if so, the details of the objections received and final decision taken in the matter?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE AND COMPANY AFFAIRS (SHRI ANANT GANGARAM GEETE): (a) to (d) The Finance Minister in his Budget speech for the year 2002-2003 announced for setting up of an Infrastructure Equity Fund of Rs. 1000 crores. The contributions to the Fund to be managed by Infrastructure Development Finance Company Ltd. (IDFC) would be initially made by public sector insurance companies, Financial Institutions (FIs) and some banks. IDFC has prepared a concept paper which is being discussed with banks/FIs. The details of the scheme are yet to be finalized.

Transparency in Transactions of Governments Securities

1409. SHRI NILOTPAL BASU: Will the Minister of FINANCE AND COMPANY AFFAIRS be pleased to state:

(a) whether it is a fact that trading in Government Securities are not allowed in stock Exchanges across the counter in a transparent manner on screen and in a demutualised form;

(b) if so, the present practice of trade in G-secs and details arising thereof;

(c) whether the present practice does not have inbuilt safeguards against fraud as revealed in the Home Trade case;

(d) if so, whether any changes are being contemplated in the present practice and introuduce trade under across the counter transactions in the exchanges; and

(e) if so, the details thereof and the tentative schedule in this regard?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE AND COMPANY AFFARIS (SHRI ANANT GANGARAM GEETE): (a) and (b) Reserve Bank of India (RBI) has intimated that transactions in Government securities can take place in the following ways:

1. Over The Counter (OTC) market : Deals are contracted either directly between participants or through the medium of a broker. RBI regulated entities such as banks, primary dealers, financial institutions, etc. can only use the services of brokers registered with the NSE, BSE or OTCEI.
2. Negotiated Dealing System (NDS): With effect from February 15, 2002, NDS has been operationalised. NDS is a screen based system set-up by RBI that not only ensures transparency but also enables settlement in RBI either directly beyond a limit or through Clearing Corporation of India Limited. (CCIL).
3. Stock Exchanges : The exchanges provide both screen based order given trading (*i.e.,* continuous) or negotiated market in Government securities.

(c) The transactions unertaken by certain cooperative banks dealing with Home Trade show that the concerned cooperative banks had violated the RBI regulations and guidelines. Where the settlement is directly in the books of the RBI, the Delivery Versus Payment (DVP) system ensures that transfer of funds does not take place unless there is delivery of securities and *vice versa.*

The Home Trade transactions purportedly relate to buying of Government securities in physical form. In the absence of any delivery of transfer of securities for month together, such transactions tantamount to making a clean advance in the guise of securities transactions.

(d) and (e) In the light of recent fraudulent transactions in the guise of Government securities transactions in physical format by a few co-operative banks with the help of some broker entities, RBI proposd to accelerate the measures under contemplation for further reducing the scope for trading in physical form., RBI, thus issued a circular on "Transactions in Government securities" on 20th May, 2002, taking the following measures to expedite conversion of all Government securities into demat modes:

(i) All RBI regulated entities [including Financial Institutions (FIs),

Primary Dealers (PDs), cooperative banks, RRBs, Local Area Banks (LABs), Non Banking Financial Companies (NBFCs)] were advised to undertake purchase/sales transactions with efect from July 1, 2002 compulsorily through Subsidiary General Ledger (SGL)/Constituent Subsidiary General Ledger (CSGL)/demat accounts.

(ii) All RBI regulated entities were advised to mandatorily hold their investments in Government securities in SGL/CSGL account or in a demat account with depositories.

(iii) All RBI regulated entities were prohibited from undertaking any transactions in physical form with any broker.

(iv) It was specifically indicated that the custodians providing SGL or demat facility must ensure clear funds in the buyer's account and sufficient securities in the seller's account before putting through a transaction.

RBI has further taken following additional measures to help strengthen the capabilities of institutions in avoiding recourse to frauds in their operations:

(i) Urban Co-operative Banks have been prohibited from dealing with borkers on principal to principal basis.

(ii) Prompt punitive action has been taken against defaulting banks and officials including suppression of Boards, levying of penalties and criminal action against officials.

(iii) Cases where brokers appeared to be involved in price manipulation and other undesirable practices have been referred to SEBI.

(iv) List of 'Dos and Don'ts finalised by the Primary Dealers Association of India for transaction in Government securities including conducting due diligence on the broker's track record and antecedents, etc., has ben forwarded in all RBI regulated entities, Ministry of Finance, Central/Regional Provident Fund Commissioner, Secretary, Ministry of Labour, Government of India for wider dissemination.

(v) Negotiated Dealing System (NDS), a screen based system set-up by RBI was operationalised with effect from February 15, 2002, to ensure transparency and enable settlement in RBI either directly or through Clearing Corporation of India Limited (CCIL).